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Preliminary Proposal to Relieve Property Taxes Through Reform of Governmental Regulations, 1997

Maine State Planning Office

Task Force on Intergovernmental Structure

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**PRELIMINARY PROPOSAL
TO RELIEVE PROPERTY TAXES
THROUGH REFORM
OF GOVERNMENTAL RELATIONS**

**July 1997
Rev. August 1997 for Public Meetings**

**Prepared for the Governor
by the Task Force on Intergovernmental Structure**

EXECUTIVE SUMMARY

This report is a product of the Task Force on Intergovernmental Structure, a 21-member group of municipal, county, and state officials. The Commission was authorized by Governor Angus King in an Executive Order dated October 1, 1996, for the purpose of :

- ☐ relieving property taxes through more efficient delivery of local services;
- ☐ reducing duplication and fragmentation of services between levels and among units of government;
- ☐ matching the responsibility for providing governmental services with the responsibility for funding those services; and
- ☐ improving communications and consultations between levels of government.

This is a preliminary report. It will be the subject of 16 public meetings in each county between now and October 8. The Task Force will review all comments and submit final recommendations to Governor King on October 23.

The Task Force is proposing reform in state-county-local relations that will:

- a. Permanently reduce property taxes collected by counties statewide by an estimated 62% (by county, this ranges from about 50% to 85%).
- b. Greatly expand the opportunity for joint municipal services, using county government as a vehicle for voluntary cooperation.
- c. Reduce duplication and improve cooperation at all levels of government.

It will do this by:

- a. **Having state government pay for the mandates** it requires of county government. These include jails, support for the district attorneys' offices and the courts, the registries of deeds and probate, and other law enforcement functions. These come to about 62% of all county costs now paid by the property tax, roughly \$37 to \$38 million per year. The payment would be made to counties through an expansion of the community revenue sharing program. The Task Force is asking the Legislature's Taxation Committee to include funding for this

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shift in costs in its tax reform package for the second session of the 118th Legislature.

- b. **Capping, by state law, the property taxes** charged to municipal governments to pay for the remaining 38% of costs of county services.
- c. **Assuring that the municipalities' savings** pass through to the home owner through "tax revenue targeting" or a similar mechanism.
- d. **Enabling county governments to design and offer local governments**, on a competitive, fee-for-service basis, an array of municipal services, and encouraging local governments to take advantage of such joint services where they would reduce costs or improve effectiveness.
- e. **Assuring that county government has the capacity** to design and deliver such services reliably. Professional administration would be required, treasurers would be appointed, and counties would have the option to elect or appoint sheriffs, registers of deeds, and registers of probate.

By 2003 each county would be required to prepare new or amended charters incorporating these provisions and to put the charters to referendum. Voters may choose either to adopt the new county structure or to keep their present structure of county government. The new fiscal arrangement, in which the state takes responsibility for designated county expenses and caps local property tax rates charged for county services, would take effect upon adoption by a county of a new charter.

The proposal also would create a permanent statewide Intergovernmental Advisory Commission to monitor progress under the reform, improve communications among the three levels of government, and recommend further efficiency measures.

BACKGROUND

1. Turning county government into an effective, intermediate level of government is the key to more efficient intergovernmental structure.

- ☐ Counties not now structured as an intermediate level of government.
- ☐ They are structured as an administrative subdivision of the state, and the basic structure hasn't changed in more than 200 years.
- ☐ Basic duties, which are performed on behalf of and at the direction of the state, haven't changed much, either.
 - Deeds
 - Jails
 - Rural patrols and other law enforcement
 - Support staff, space, and services for district attorneys
 - Probate
 - Civil defense/emergency management (new in last 18 years)
- ☐ Disconnect between duties carried out on behalf of the state, as an administrative subdivision thereof, and the source of funding of these duties (local property taxes).
- ☐ Some incremental change in county governance has taken place as a result of concern about demand for local property taxes without any local control.
 - Locally appointed or elected budget committees, most with advisory power, some with final authority over budgets
 - A few counties have moved to professional county manager or administrator
 - Counties can adopt charters to determine own administrative structure, but have no home rule and cannot add to authority

2. Counties are enabled to deliver (a) local services, on a case-by-case, contractual basis (Title 30-A, Sec. 107), (b) regional solid waste services (Title 30-A, Sec. 902), and (c) communications (dispatch) services for rescue, fire, and police departments (Title 30-A, Sec. 453).

- ☐ Local participation voluntary
- ☐ Most frequent and virtually only contracted local service is sheriff's services, beyond normal rural patrols
- ☐ Few examples of county-sponsored, regional solid waste services--mostly recycling, e.g., Lincoln County

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3. Municipal cooperation enabled under Interlocal Cooperation Act, but, while good examples exist, the number and purpose of interlocal agreements are spotty. Still more the exception than the rule. Agreements are almost always single purpose.

- MDF/SPO 1996 survey of 85 service center communities and 16 counties (49 communities, 9 counties responded) found 127 interlocal or contractual agreements, almost all in the areas of public works and public safety. Another 129 were cooperating under less formal agreements or in special purpose districts.

CORE CONCEPTS FOR RESTRUCTURING INTERGOVERNMENTAL RELATIONS

A. CORE CONCEPTS

- ☐ ***State should assume financial responsibility for those services it has traditionally demanded of county government.*** These services are: jails, support for courts and the district attorney, a share of law enforcement activities, Registry of Deeds, Register of Probate, and a share of the maintenance of facilities housing these functions. The state's financial support of these functions should be contingent on: (a) a guarantee of revenue neutrality, including a rollback by municipalities of local property taxes, and (b) a restructuring of county government.
- ☐ ***State, county, and local governments should have a formal system for collaborating on policy relating to these and other services.*** Not only should such a system improve state-county relationships, but also should be used to improve efficiencies. Examples are jails and law enforcement. Can build on efforts already underway between state police and some counties.
- ☐ ***County government should be repositioned so that municipalities are their primary customers.*** This will require counties to restructure themselves to gain municipal trust. Management must become more professional and entrepreneurial. Counties should gain broad authority to offer municipal services on a fee-for-service basis. Municipal participation in the services would be voluntary.
- ☐ ***Municipal government should aggressively seek opportunities to avail themselves of joint services,*** both through a stronger county mechanism and through existing authority to enter into interlocal agreements. A system of incentives may be needed.

B. ELEMENTS OF RESTRUCTURED INTERGOVERNMENTAL RELATIONS

I. State should assume financial responsibility for those services it has traditionally demanded of county government

☐ Services proposed to be delineated as follows:

- **State responsibility** (in addition to existing state obligations):
 - Support services relating to district attorney
 - Court rents and services
 - Registry of deeds
 - Registry of probate
 - Jails and other support for prisoners
 - 40% of sheriff's non-jail, non-contract services (incl. communications)
 - 50% of maintenance of general facilities, which house many of these functions
- **Continued responsibility of property tax**, paid by all municipalities based on assessed value:
 - Local share of EMA
 - Commissioners and county administration
 - Management information services
 - 40% of sheriff's non-jail, non-contract services (incl. communications)
 - 50% of maintenance of general facilities
 - Maintenance of special facilities (airports, parking garages, etc.)
 - Treasurer
 - Debt service
 - Grants to organizations
 - Bridges, roads that are county responsibilities
 - Other
- **In addition, 20% of sheriff's non-jail, non-contract services would be paid for by property tax payers in communities without organized police departments** (an organized police department is one with the capacity to provide basic services year-round to local residents, as listed by the State Dept. of Public Safety in its annual Crime in Maine report). This 40%, 40%, 20% split of responsibility for the sheriff's non-jail, non-contract services among state government, local property tax payers in the county as a whole, and rural communities links the costs of these

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services to their beneficiaries. The state benefits because sheriff's activities reduce the demand on state police. Local property tax payers in the county as a whole benefit from a law enforcement capacity available to all. Rural communities without organized police departments of their own benefit disproportionately, since they are directly served by the rural patrols.

- ☐ Based on review of 16 county budgets, it appears that this delineation **would require the state to pick up approximately 62% of county costs now paid by the property tax.** See attached summary. The total 1997 county requirement for property taxes is \$59.9 million; the new state cost would be between \$37 million and \$38 million per year (in 1997 dollars).
- ☐ What form should this payment by the state to the counties take? Two concerns are likely:
 - First, if the payments are part of a biennial allocation in the state budget, counties will worry that the state will not always keep its obligation.
 - Second, state will worry that it will face a biennial bill over which it has little control--a "blank check."

Therefore, **consider extending the community revenue sharing program**, which would share with the counties a percentage of income and sales tax revenues. No biennial budget allocations are required, because revenue sharing is taken "off the top" and put into a fund separate from the budget. And the state would be protected from the "blank check"--revenues would grow according to the economy, and the counties would have to live within those limits.

Currently, revenue sharing is based on 5.1% of income and sales tax revenues, or about \$76 million per year. One percent equals about \$15 million. Therefore, if this approach were favored, revenue sharing would have to increase by approximately 2.55 percentage points (to 7.65% of income and sales tax revenues) to raise the \$38 million of new state obligations. (Alternatively, other sources could help to pay for this relief, e.g., a portion of the recently increased cigarette tax.) Funds would go directly to the counties. **Municipalities, under a system of tax revenue targeting or a similar approach, would be required to reduce their property taxes by a like amount**, so that the shift of financial responsibilities will be revenue-neutral (with no impact on overall tax burden).

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The revenue sharing formula for counties would be structured to **keep each county whole as of 1997.**

In addition, if these county costs are to be paid through enhanced revenue sharing, it probably makes sense to **fold existing state payments to the county -- i.e., the community corrections program -- into the same vehicle.** This will streamline administration at both the county and state levels. The community corrections program costs the state approximately \$5 million annually. If folded into the enhanced revenue sharing program, the increase in percentage of income and sales tax revenues going to the counties would be slightly more than 2.55 percentage points -- about 2.6 percentage points.

- ☐ Where will this \$37 - \$38 million come from at the state level? **Should be part of tax reform** that will be considered by the Taxation Committee in preparation for the second session of the 118th Legislature. One goal of the tax reform is property tax relief, of which this should be a part.

II. State, county, and local governments should have a formal system for collaborating on policy relating to services that are required by one level of government and performed or paid for by another, or that are performed by two or more levels with needless duplication and opportunity for conflict.

- ☐ Establish a **permanent statewide Intergovernmental Advisory Commission**, whose duty would be to look for ways to reduce duplication among all three levels of government in Maine as well as within each level of government; to promote communications, cooperation, and efficient delivery of services; and to monitor and discuss demands made by one level of government of another level. The make-up of the Task Force on Intergovernmental Structure also would be appropriate for a permanent commission: 21 members comprising 7 from the state (5 commissioners and 2 legislators), 7 county commissioners, and 7 municipal officials, appointed by the Governor with the advice of representatives of the different levels of government.
- ☐ The commission would create technical committees to resolve conflicts and duplication in specific, intergovernmental areas, such as corrections and public safety. The technical committees

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would bring together practitioners from each level of government to make recommendations to the commission.

- ☐ The commission would initiate at least one pilot project in which the state, county, and municipal levels of government would work together to solve a problem of duplicated or overlapping duties; or in which the state, through a contractual arrangement with the counties, could improve the efficiency of a delivered service.
- ☐ The commission also would:
 - track performance of the new intergovernmental structure, for example, with regard to the number of municipalities acquiring services jointly through the counties and the dollars saved by doing so;
 - further the study and improvement of intergovernmental structure in Maine;
 - prepare an annual report to the Governor, Legislature, counties, and municipalities.

III. County government should be repositioned so that municipalities are a primary customer

- ☐ ***Place in the intergovernmental structure:***
 - Reposition county government for **stronger emphasis on direct services to municipalities**, so that municipalities have a ready-made alternative to buy services cooperatively.
 - Basic authority to serve municipalities can be derived from a hybrid of Title 30-A, Secs. 107 and 902. Counties given broad authority to offer municipal services; each municipality decides for itself whether to use and pay for the service. Counties, professionally run, would have to be entrepreneurial and competitive to create the services and capture local “customers.” A municipality in one county could purchase a service from another county if it wished.
 - Centralized model of county government familiar in much of the country outside of New England not appropriate for Maine.
 - Counties **still will serve as an administrative subdivision of the state for key services** (deeds, jails, probate, emergency management, support for D.A., certain law enforcement functions)

□ Governance (see also Implementation):

- Elected commissioners: minimum of 3, elected by district, with each county determining the number appropriate to manage its affairs.
- Treasurer must be an appointed position. Each county will decide, as part of its charter, whether to elect or appoint the Register of Deeds and Register of Probate.
- Statewide referendum on whether to continue to require, by constitution, election of the sheriff; if this requirement is repealed, it would also be the option of the county to continue to elect the sheriff or to make this an appointed position.
- Professional administrator, part- or full-time, appointed by the commissioners and removable by the commissioners for cause, who shall fulfill the following duties:
 - appoint, with the consent of the county commissioners, and when necessary remove with the consent of the commissioners the Treasurer and such other department managers as are appointed per the county's charter.
 - prepare the annual budget and submit it to the county commissioners.
 - attend the meetings of the county commissioners and keep the commissioners advised of the financial condition and future needs of the county.
 - make appropriate recommendations to the county commissioners on the promulgation of policy.
 - see that all laws governing the county are faithfully executed.
 - perform such other duties as may be prescribed by county charter, law, or duties prescribed by the county commissioners.
- Budget, budget advisory, and finance committees
 - budget, budget advisory or finance committees will remain in place (or, where none now exists, will be created), with relationship to the budget as determined by county charters (see Implementation)
 - added role of advising the county commissioners on the kinds of joint municipal services that the county should consider offering and the design of those services (in this role, the committee is serving as the eyes and ears of the county's municipal customers, anticipating the need for joint services)

□ **Fiscal:**

- Counties would have three basic sources of outside funds:
 - **Enhanced revenue sharing** (approximately 2.6% of state income and sales tax revenues) as payment for duties carried out as an administrative subdivision of the state.
 - **Capped property tax.** Municipalities would fund a base portion of the county budget via the property tax, but this would be capped at a rate below present levels, since the state would be paying for services it requires counties to deliver. There would be one capped rate for municipalities with their own police departments, and one for municipalities without their own police departments. These base payments would recognize that certain county services are carried out on behalf of all county residents (for example, crime investigations) and would help pay for professional administration of county government.
 - The capped rates would vary by county, using 1997 county budgets as a base for calculating the rates.
 - Based on analysis of county budgets, the capped rates would be on the order of 50% to 85% (median of 62%) lower than current rates for municipalities **with police departments** and on the order of 25% to 60% (median of 47%) lower than current rates for municipalities **without police departments**.

The caps could be exceeded only in the cases of (a) emergencies or (b) capital expenditures made pursuant to bond issues approved by the voters. In the former case, an expenditure that would cause a breach of the caps would require approval by two-thirds of the budget committee. In the latter case, bonding that would result in debt service that would breach the caps would require approval by two-thirds of the budget committee before going to the voters in referendum. State legislative approval would not be required.

- **Fees for contracted services.** Local dollars also would come from fees for municipal services offered by

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counties. Fees would be paid by those municipalities participating in the service. As indicated earlier, counties will be given broad authority to offer municipal services of their choosing.

□ *Implementation:*

- Implemented at such time as county voters decide to switch to the new structure.
- By 2003, each county will be required to have drafted a new or amended charter reflecting the restructuring and to put the new or amended charter to referendum.
- The new Intergovernmental Advisory Commission will draft a model charter to serve as guidance; this would be an advisory document only but would include the elements necessary to implement the restructuring.
- Where the state legislature still has final approval authority over county budgets, such authority will end upon adoption of a new charter.
- The state's assumption of financial responsibility for certain county services and the related caps on local property taxes for the payment of county services will apply only in those counties that approve the new or amended charter.

□ *Geography:*

- Still 16 counties configured as at present, but allow a municipality in one county to contract with another county for services if it wishes. Allow counties, at their option, to consolidate or redraw boundaries.
- The Intergovernmental Advisory Commission should consider whether there are opportunities for state agencies to reconfigure their divisional boundaries to follow county lines or to otherwise conform with other common geographies.

IV. Municipal government should aggressively seek opportunities to avail themselves of joint services.

- A major purpose of repositioning and restructuring county government is to provide an easy opportunity for municipalities to avail themselves of joint services. The success of this system depends both on the entrepreneurialism and managerial skills of

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the counties and on the willingness of municipalities to participate.

- ❑ The state's assumption of financial responsibilities that now fall on the property tax and the related caps on property taxes to pay for the base portion of the county budget are strong incentives for local governments and their voters to accept new or amended county charters. However, participation by municipalities will evolve only as counties demonstrate their acumen in delivering less costly services on a joint bases, as the municipalities begin to see successes, and as they are willing to shed their own provincialism. To this end, the Intergovernmental Advisory Commission should:
 - encourage pilot projects in the counties;
 - advertise successes;
 - make recommendations to the Governor, Legislature, and commissioners that would direct state public infrastructure dollars particularly to municipalities that have demonstrated a willingness to improve their efficiency and productivity through the joint purchase or delivery of services;
 - identify models for interlocal cooperation in other states.

